

ROMANIA'S COMPETITIVENESS –PRESENT AND FUTURE TRENDS

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ABSTRACT

Romania, the worst performer in 2009 of the Southeast Europe economies was blocked for another year of economic contraction. As for 2011, analysts expect the economy to post positive although below potential growth rate, driven by a modest recovery in domestic demand. Political and external risks appear large and could trigger a downward revision of the growth forecast in the months ahead. For our country boosting competitiveness is one of the few remaining paths to drive to overcome negative effects of the unfinished economic crisis. This paper analyzes the results for Romanian competitiveness as it comes out of the GCI (Global Competitiveness Index) in the last period and perspectives.

KEYWORDS: Romania's economic growth, competitiveness, post crisis recovery

JEL CLASSIFICATION: F43, O52

INTRODUCTION

Romania is the 9th largest country in the European Union and the 82nd largest country in the world, comparable in size to the US state of Oregon.

After the fall of communism in 1989, Romania perceived a decade of decline, while lagging behind its peers in terms of reform. Romania emerged from a three year recession with strong domestic demand, high growth, and decreasing unemployment and inflation.

From 2000 onward, Romania's economy was transformed as it set course for EU entry. Today Romania is the 11th largest economy in the EU.

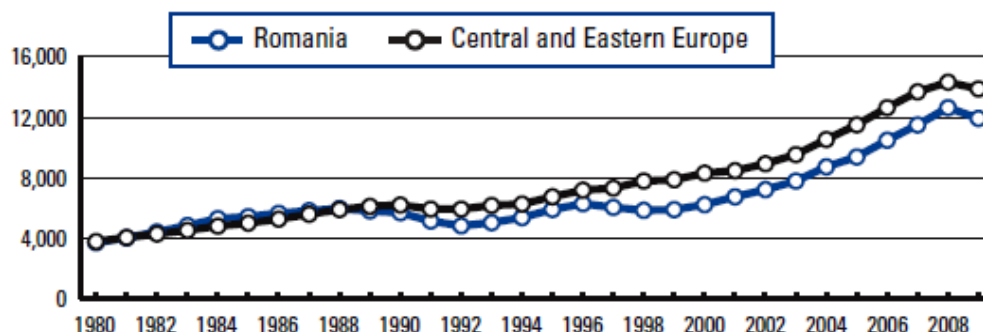
PAPER DATA

The accentuation of the economic crisis during the last two years, the increase of the interdependencies between the internal and external factors, as well as the need of integrating new principles in the development strategies since 2007, constitute factors of big importance and actuality, determinants of the Romanian economy evolution in the contemporary regional framework.

The National Strategic Reference Framework 2007-2013 (NSRF), approved by the European Commission in the year 2007, launches the priorities of the Structural Instruments of the European Union and also makes the linking between the priorities of the National Development plan 2007-2013 and those of the European Union.

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Figure 1 GDP (PPP) per capita (int'l \$) source: www.weforum.org



In order to move in the trajectory assumed by the NSRF Romania has to achieve the subsequent strategic objectives of short, medium and long term:

- 2013 horizon – the integration of the durable development's principles and practices in the ensemble of Romania's public programs and politics, as a state member of the European Union;
- 2020 horizon – getting the medium actual level of the communitarian countries at the main indicators of the durable development;
- 2030 horizon – Romania's major fulfill to the middle level of the EU member states from the point of view of the durable development's indicators.¹

Statistical data show that the Romanian economy was not prepared to face competitive pressure from European Union forces. Since 2007 our country has been facing eternal problem for solving the cyclical temporary shocks and it continues to favor imports of solutions that give shape to form but not substance.

Unfortunately year 2009 was a very hard year for Romania's economy, which proved entire forecasts from the year before to be wrong. Romania did not record the expected growth. Instead our country did a big step backwards after being hit by the crisis. The fact that no analyst could foresee such a development before the outbreak of the crisis was a certitude. We can see now that our managers and politicians had no valid national macroeconomic forecast to predict the real impact of the international economic crisis².

The Romanian Government denied last year that Romania was in danger of declaring bankruptcy. The official declarations classify the huge credit of 20 billion Euros as a safety belt for the private sector.

Competitiveness represents, now more than ever, one of the most desirable attribute an entity (country, region or firm) is looking for on the global arena. As

¹ http://www.fonduri-structurale.ro/article_files/CSNR_versiunea2_18oct2006_RO.pdf

² Ivanescu, I. M. (2010). Romania's Competitiveness Perspectives and Economic Crisis, Annals of DAAAM for 2010 & Proceedings of the 21st International DAAAM Symposium, 20-23rd October 2010, Zadar, Croatia, ISSN 1726-9679, ISBN 978-3-901509-73-5, Katalinic, B. (Ed.), pp. 1429-1430, Published by DAAAM International Vienna, Vienna

we can see (GCI 2009-2010), Romania ranks the 64th (from 133 countries that the Global Competitiveness Report ranks), with 4 positions better than 2008 and with an irrelevant score improvement – 4, 11 versus 4, 1 (on a scale from 1 to 7 – the best situation).

In terms of competitiveness the 2009-2010 GCR shows us the key factors which determine our economy to act so badly in the last years in the global and regional competition.

The lowest score registered by Romania is for infrastructure – ranking 110 from 133 (comparative to 105 last year), which guides Romania to the last place into the European Union. Our country also registers the lowest scores into the EU for health and primary education and technological readiness. Other weaknesses are higher education, training and business sophistication. In fact at these indexes, from all the EU countries, only Bulgaria ranks worse than Romania. Recent developments in cutting 25% of remunerations from public employees and the perspective of letting go more people from these sectors will most likely guide our country to an even worse rank. At the beginning of 2010 Romania leave behind countries such as Greece, Portugal or Italy regarding the macroeconomic stability (with a rank of 75), but it is possible that this advantage to be rule out by the real evolution of our economy. Financial market sophistication discloses a good ranking – position 56 – comparative to countries such as Greece, Italy or Latvia. The best ranking Romania record is for market size – 41, but it losses points as regards goods market efficiency and labor market efficiency.

Comparative to the 2008 Global Competitiveness Report (GCR), where Romania was located on the last position in the European Union, this year there are three member states less competitive than Romania within the EU (Greece and Bulgaria). But the report is based on statistics from 2008 and on a survey applied to managers in spring 2009 and at this time at least Latvia was much more affected by the global economic crisis then Romania. The last months trends indicate a coming up crash for our economy so these ranking could be invalidated by the end of 2010. In conclusion, even if the 2009-2010 report indicates a small recover of Romania's competitiveness I consider that it is unlikely to see a real improvement at the end of the year concerning our country competitiveness.¹

In order to improve competitiveness Romania urgent needs to build on its current strong points, and diminish the risks it faces.

The most significant benefit Romania has in this industry is its close proximity to the European market. This matters in terms of *physical distance* and low transaction costs; in terms of *proximity* to the final customer and their demands; and in terms of its *long-standing connections* with the European major retail companies.

¹ Ivanescu, I. M. (2010). Romania's Competitiveness Perspectives and Economic Crisis, Annals of DAAAM for 2010 & Proceedings of the 21st International DAAAM Symposium, 20-23rd October 2010, Zadar, Croatia, ISSN 1726-9679, ISBN 978-3-901509-73-5, Katalinic, B. (Ed.), pp. 1429-1430, Published by DAAAM International Vienna, Vienna

The largest risk Romania faces is the ever-increasing competition from Asian countries, in particular in the low-end market segment. Romania with its rising wages will not be able to compete very well in this market segment, and will therefore have to focus on the medium- and high end of the market.

Romania will have to increase its productivity levels significantly, and prepare itself to become competitive in this market segment.

Romania is currently highly in need of on foreign contracts, which is a vulnerable situation. There is a real risk that companies currently producing in Romania will relocate to lower-wage countries. There are two ways of dealing with this vulnerability; either through creating a stronger inter-dependence with these companies, or through creating a stronger independence by building one's own brands.

Romania needs to focus largely on creating inter-dependences, rather than on increasing his economic independence. However, Romania can consider taking some small steps in this direction, building initially on the domestic market and then branching out to export markets later.

In conclusion, Romania requires a dual approach to be and to remain competitive in the global economy:

- Romania needs to strengthen its position within the global value chain, based on a strategy of strengthening the interdependency with the European producers and induce them to stay in Romania.
- At the same time Romania can start to take small steps to reduce its dependency of foreign companies.

CONCLUSION

Our country has to deal with the budget deficits in the same time. Raising the level of taxation was a factor of economic irresponsibility and not a recovering measure. The key to solve this need of liquidity is the ability to use the non-reimbursable EU funding. We need to invest and not to use credits from EU or IMF.

The humble political game cannot recover the performances of the economy. It is certain that only a strong investments strategy in major national objectives and a real reform of the public sector and the public administration system can have positive effects.

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